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FEATURED Q&A

How Unstable Has Mexico's Payment System Become?



A major technical failure left customers across Mexico unable to make credit card purchases and withdraw money from ATMs on Aug. 10. // File Photo: Pixabay.

Q Problems at a data processing center led to a widespread collapse of Mexico's banking system on Aug. 10, leading to declined transactions as consumers failed to make credit card purchases, withdraw money from ATMs and perform other financial tasks. The failure came at the same time that Mexico's government is considering a ban on paying cash for gasoline and tolls in order to prevent money laundering and draw more people into the formal economy. How stable and secure are Mexico's payments systems? What must be done in order to prevent a similar breakdown in the future? How will the country's new digital payments platform affect consumers and businesses?

A Alejandro Tapia, senior director for Latin American Financial Institutions at Fitch Ratings: "While the payment systems in Mexico in the last 18 months have experienced some weaknesses, Fitch considers that these in general are relatively safe and point to greater stability as a result of the actions implemented by the financial regulators following the cyberattacks on the central bank's Spei payment system in 2018. Although the attacks had limited financial effects (less than 0.01 percent of total customer deposits) and reputational risks were contained, Banxico has been proactive in demanding stronger controls to the market participants. Banks must have an information security officer, detailed contingency plans and proactive surveillance and reporting. Banks also continue deploying investments in controls, while Fitch notes a greater use of insurance policies. Despite the actions undertaken, Fitch believes payment systems still show room for

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TOP NEWS

INSURANCE

Colombia's Grupo Sura Reports 2.3% Rise in Profit

The insurance conglomerate said its earnings were driven by solid returns at companies where it has investments.

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BANKING

BBVA to Expand Digital Enrollment by End of Year

Spain's BBVA said it will allow potential customers in more of its markets to open accounts digitally. It already allows digital enrollment in Mexico and Colombia, among other markets, and is expanding the offering to locations including Peru and Argentina.

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CREDIT CARDS

Itaú to Shift Strategy on Card Processing

Itaú Unibanco is shifting its strategy for card-processing services to focus on its mid-sized and small clients, said Marcos Magalhães, the head of the bank's card-processing unit, Rede.

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Magalhães // File Photo: LinkedIn.

INSURANCE NEWS

Allianz Buys Auto Insurance Arm of SulAmérica in Brazil

Munich-based insurer Allianz said Aug. 23 it had agreed to acquire the automobile and other property-casualty operations from São Paulo-based SulAmérica. The acquisition will make Allianz one of the top three insurers in Brazil, with a market share of around 15 percent in auto and 9 percent in property-casualty insurance, and it will establish Allianz as the number-two provider of auto insurance there. The purchase price is 3 billion reais (\$727 million). The total premium income from the acquired business totaled 806 million euros (\$898 million) in 2018, with 762 million euros stemming from auto operations. The transaction is scheduled to be completed within the next 12 months, pending regulatory approvals. Moving ahead, SulAmérica's operations would be concentrated in health, dental, life and pension insurance and asset management products, according to Reuters. In related news, Brazil's federal government in July completed an operation that marked its exit from the country's reinsurance market, selling off its shares in Brazil's biggest reinsurer, IRB Brasil Re, BNamericas reported. The public offering raised 7.39 billion reais on the São Paulo stock exchange, one of the largest deals of the year to date.

Colombia's Grupo Sura Reports 2.3% Rise in Net Profit

Colombian insurance conglomerate Grupo Sura on Aug. 14 reported a 2.3 percent increase in net profit, year-on-year, for the second quarter, Reuters reported. The company posted profit of 390 billion pesos (\$114.5 million) and told the country's financial regulator in a statement that the increase was the result of solid returns at companies where the conglomerate

has investments, as well as a lower level of spending on interest payments. The company's revenue increased 14.1 percent between April and June to 5.46 trillion pesos. Grupo Sura has investments in holdings including bank Bancolombia, industrial conglomerate Grupo Agros, insurance and pension providers Seguros Sura and Sura Asset Management, and food producer Grupo Nutresa. Altogether, Grupo Sura, which is headquartered in Medellín, has assets in 10 countries in Latin America. The conglomerate's total earnings before interest, taxes, depreciation and amortization, or EBITDA, rose 45 percent in the second quarter to 391 billion pesos.

BANKING NEWS

Santander to Use Ripple for Money Transfers to U.S.

Santander plans to use a service of U.S.-based technology company Ripple Labs to open what it calls a new "payment corridor" for money transfers from Latin American countries to the United States, Coindesk reported Aug. 19. The Spain-based bank is working on establishing the money-transfer option for customers via the One Pay FX application, which uses Ripple's xCurrent software, Santander officials told Coindesk. Currently, Santander's customers in Britain and Spain can send money to the United States using the technology. In Latin America, Santander has operations in Brazil, Mexico, Chile and Uruguay, but it did not say which of its units in the region will be connected to the new service. The service will not involve the XRP cryptocurrency, which Ripple has occasionally sold in order to fund its operations. Last year, the bank introduced the One Pay FX app in Spain, Britain, Brazil and Poland, which together account for more than half of Santander's profits. "Customers who were not doing international transfers are now using the service, customers who were using international transfer are now doing it more, and customers who had gone to use fintech

NEWS BRIEFS

Brazil Moving Financial Activities Control Board Under Central Bank Unit

Brazil's government has issued a decree to move the Financial Activities Control Board, or Coaf, into a new financial intelligence unit within the central bank, MercoPress reported Aug. 21. The move gives the central bank president control over who heads the new unit, as well as which officials are appointed to it. The Financial Intelligence Unit is designed to produce and manage financial intelligence information "for the prevention and combat of money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction," according to the decree.

Fintechs Not Displacing Mexican Banks: Moody's

Fintechs in Mexico are not displacing larger banks and will likely foster financial inclusion, Moody's said in a note circulated Aug. 21. While fintechs will focus on expanding services to the unbanked and underbanked, who are a sizable portion of the population in Mexico, they will not be displacing large Mexican banks any time soon, the report said, adding that smaller banks might lose customers to new entrants if they fail to adapt to digitalization.

NEC to Use Blockchain for Digital IDs, Mobile Wallet Across Buenos Aires

Japan's NEC Corp. said Aug. 26 it has joined an effort to use blockchain to create digital identification for all the residents of Buenos Aires in a bid to combat poverty. In a statement, NEC said a digital identity will allow unbanked individuals to access financial services, such as storing digital money, making payments and receiving remittances while building a transaction history. Other partners include the Civil Association DECODES (NGO Bitcoin Argentina) and the Inter-American Development Bank.

competition have come back because of the One Pay offering,” Cedric Menager, the chief executive officer of One Pay FX, told CoinDesk in an interview. He added that the xCurrent system does not charge fees to customers and allows them to see exchange rates before they execute money transfers. Santander would not disclose its transaction volumes for the One Pay FX system, but it said the volumes have tripled since January. It added that its volumes from Spain rose 120 percent in April, as compared to the same month last year.

BBVA to Expand Digital Enrollment by Year’s End

Spanish bank BBVA announced Aug. 20 that it will allow customers in more of its markets the ability to open accounts digitally by the end of the year. The bank already allows digital enrollment in Mexico, Colombia, the United States and Spain. It will soon be launched in Peru, Argentina and Turkey, BBVA said in a statement. “Our goal is to have digital enrollment available to all users across our operating footprint by the end of 2019,” Gonzalo Rodríguez, the bank’s global head of customer solutions, said in a statement. BBVA said it is using potential customers’ preferred methods of accessing the bank electronically, such as through using the web in Colombia, where customers will not have to download an app to open accounts digitally. The bank said its biometric identification of customers is being carried out through Veridas, a 2017 joint venture between the bank and Spanish start-up Das-Nano.

CREDIT CARD NEWS

Brazil: Itaú Plans to Shift Its Card-Processing Strategy

Brazil’s Itaú Unibanco is planning to shift its strategy for payment services in order to

FEATURED Q&A / Continued from page 1

improvement relative to international best practices. The recent interruption of services of one of the country’s largest payment processors (PROSA) highlighted that the local payment systems’ capabilities have to be deepened and controls strengthened. With

“**Banxico has been proactive in demanding stronger controls...**”

— Alejandro Tapia

preliminary information, Banxico has pointed to PROSA’s electrical infrastructure as the source of the problem. The initiative to implement a new payment system (CoDi) is perceived as positive, but the benefits could be achieved over the medium and long term only. CoDi is an alternative that will reduce the use of cash and support anti-money laundering initiatives; it is also aimed at reducing costs for banks and clients, while

focus on its more profitable segments, Reuters reported Aug. 13, citing a top executive at the bank. “We don’t want to focus on card processing for our larger clients. That service should be priority for the mid-sized and small clients,” Marcos Magalhães, the chief executive officer of Rede, Itaú’s card-processing unit, told the wire service. The segment is profitable with smaller clients, he said. Three months ago, Rede zeroed out fees in receivables-backed credit for those clients. Supplying card-processing services and machines to larger clients has not been profitable for Rede since the fourth quarter of last year, said Magalhães. He added that the card-processing unit has lost clients among large retailers, but he also said that the unit has been gaining market share among companies that have 30 million reais (\$7.6 million) in annual revenue or less. Itaú Unibanco has been offering its larger clients the use of its new payment application, iti, which executes money transfers via QR codes. For those transactions, the São Paulo-based

providing more security. Additionally, it should boost financial intermediation, which is still very low in Mexico.”

A **Alejandro Landa Thierry, partner at Holland & Knight:** “In general, payment systems are very stable. In Mexico, two main companies handle electronic transactions. Each one has a double system—one main and one relief system. The problem at the time was that the main system had a failure and the relief did not engage due to a problem in the component that triggers the relief system input. To prevent breakdowns in the future, we need to ensure that regulators always have an alternate relief system and a disaster recovery plan to ensure that they can switch operations without problem. Banking the entire population will help ensure access to higher credit, better digital services and insurance. It will help to increase the sales that are currently limited to the guarantee of a credit card and, in general, it would greatly help the growth of the country, regardless

Continued on page 6

bank charges fees of as much as 1 percent. The new app was developed in order to satisfy clients’ needs for simpler payment processing, said Magalhães. Brazil has some 10 million card-processing machines in operation, according to analysts.

Brazil’s Nubank Launching Credit Card in Mexico

Brazil’s largest fintech, Nubank, is launching a credit card in Mexico, the first product it is offering in that country, Expansión reported Aug. 22. Customers will be able to request the Nu-card online, Nubank’s Mexico unit said in a statement, Mexicanist reported. To obtain the new credit card, interested customers must first register on the bank’s page to enter the waiting list, which can be done through the fin-

tech's mobile application for Android and iOS. The application and activation process should take just a few minutes, Nubank said. Interest rates will also be below average, the statement added. "At Nu, we want to help free customers from the problems they face with the financial services that currently exist in Mexico and empower them to regain control of their money," Emilio González, the chief executive officer of Nu Mexico, said in the statement. To do this, Nubank aims to offer clearer instruments than a traditional bank would, without charging commission and while providing all services on its mobile app, González added, *Expansión* reported. Only 30 percent of Mexico's population has access to financial services, a gap that fintechs in the country may be able to close by fostering financial inclusion, according to Moody's. [Editor's note: See related [Q&A](#) in the Aug. 14 issue of the Financial Services Advisor.]

ECONOMIC NEWS

Peru Lowers Growth Forecast

Peru's government has revised its economic outlook for this and next year, down to 3 percent and 4 percent, respectively, the Ministry of Economy and Finances said Aug. 23, *El Comercio* reported. It had previously expected gross domestic product to grow 4.2 percent this year and 4.5 percent next year, according to data released in April. However, continued trade tensions between the United States and China and slower activity in the mining sector have prompted the government to lower its forecast, Reuters reported. Even so, the government expects Peru to be among Latin America's best-performing economies despite the adverse global context, the ministry said in a statement, adding that the Andean country's growth will accelerate in the coming years, reaching 5 percent in 2023. "Peru's solid macroeconomic fundamentals will be important to face the uncertainty of the international context," the ministry said in the statement, the wire service reported. Estimates for the budget deficit remain unchanged for this year at 2.2

JOB POSTINGS

EDITOR'S NOTE: We are pleased to share Latin America-related job postings that companies reading the Advisor and others have listed recently.

- Rappi:** Head of Communications, Mexico City
- MetLife:** AVP, Global Strategy, New York
- RELX:** Head of Government Affairs, Latin America
- FTI Consulting:** Senior Consultant, Public Affairs (Latin America), Washington
- Accion Venture Lab:** Latin America Investment Officer, Washington
- Red Hat:** Vice President, Global, Financial Services and Insurance Industry, U.S./N.Y./Remote
- Spotify:** Media Manager, Latin America, Miami
- Lime:** Head of Business Development, Latin America, Miami
- Hard Rock International:** Area Vice President of Operations—Hotel, Latin America, Miami
- Inter-American Development Bank:** Senior Specialist, Finance Department, Washington

percent of GDP, but the ministry revised next year's budget deficit up to 2.0 percent of GDP, from 1.8 percent initially, Reuters reported. [Editor's note: See related [Q&A](#) in the Jan. 25 issue of the daily Latin America Advisor.]

Mexican Economy Closer to Recession Than Expected

Mexico's gross domestic product was slightly weaker than a preliminary estimate published last month, data from national statistics agency INEGI released Aug. 23 shows, Reuters reported. GDP, which was thought to have grown, in fact remained unchanged in the second quarter from the previous three-month period. The latest figures show that the economy was even closer to entering a recession in the first half of 2019 than previously stated. The initial INEGI estimate had shown the Mexican economy growing by 0.1 percent during the April-June period. On Aug. 15, Mexico's central bank, Banxico, lowered interest rates for the

first time in more than five years in a split vote, citing slowing economic growth, lower inflation and a decline in debt yields in Mexico and abroad, *The Wall Street Journal* reported.

Brazilian Senate Approves Measure to Reduce Bureaucracy

Brazil's Senate on Aug. 21 passed a deregulation package aimed at boosting the country's sluggish economy by simplifying business, *The Wall Street Journal* reported. Measures include launching a fast-track process to open new firms, waivers for some permit requirements and expanding the acceptance of digital documents, among others. "It is an attempt to level Brazil's regulatory environment with that of global economic powerhouses by reducing the state's interference in business," André Marques, a lawyer with the firm Guerra Batista, told *The Wall Street Journal*. "They will let money circulate more freely." Brazil is well known for its crippling bureaucracy, with the country

NEWS BRIEFS

Argentine Candidate Promises No Debt Default

Argentine presidential candidate Alberto Fernández said Aug. 22 that there was “no possibility” the country would default if he’s elected in October, adding that he would negotiate new terms with creditors, Reuters reported. “We will have to talk with creditors to see how we can resolve the situation, because if Argentina has to pay its obligations under present conditions, that will be hard to do,” said the Peronist candidate, whom analysts expect will win after trouncing incumbent President Mauricio Macri in an Aug. 11 primary.

Ivanka Trump to Travel to South America in Sept.

The U.S. State Department announced Aug. 26 that Ivanka Trump, the daughter of U.S. President Donald Trump who serves as a special advisor to her father, will travel to three countries of South America next month to advocate for women’s economic and political integration and empowerment. Traveling with Deputy Secretary of State John J. Sullivan, the tour will cover Colombia, Argentina and Paraguay from Sept. 3-6. Sullivan will also hold meetings on counternarcotics and citizen security, the crisis in Venezuela and expanding economic opportunities, the statement said.

Caribbean Braces for Potential Hurricane

Islands in the Caribbean are preparing as Tropical Storm Dorian is forecast to pass across the Windward Islands and into the eastern Caribbean Sea, heading toward Puerto Rico, USA Today reported Aug. 26. Storm warnings were in effect for Martinique, St. Lucia and St. Vincent and the Grenadines, the National Hurricane Center said. Puerto Rico and the Dominican Republic’s east coast from Isla Saona to Samana are under hurricane watch. The storm has knocked out power in parts of Barbados but did not cause significant damage.

ranking 109th out of 190 nations in the World Bank’s Ease of Doing Business index, lower than 10 other Latin American countries, including Mexico, Chile and Colombia. Opponents of the deregulation package have expressed concern over its implications on labor rights and environmental protections. “This is very harmful,” said opposition Senator Humberto Costa from the Workers’ Party, The Wall Street Journal reported.

POLITICAL NEWS

Brazil Rejects G7 Offer of \$22 Million to Fight Amazon Fires

Brazil’s government said Aug. 26 it will reject \$22 million in aid offered by G7 countries to help put out record fires in the Amazon rain forest, Folha de S.Paulo reported. Officials in the administration of President Jair Bolsonaro criticized the offer from French President Emmanuel Macron, with whom Bolsonaro has been having a personal feud over social media, as more of a political gesture than substantive assistance. Bolsonaro’s chief of staff, Onyx Lorenzoni, told GloboNews, “Thanks, but maybe those resources are more relevant to reforest Europe.” Foreign Minister Ernesto Araújo said the international media attention to the fires was a “fabricated crisis” and that there are already mechanisms under the auspices of the United Nations climate convention to fight deforestation, BBC News reported. However, Brazil has accepted offers to fight the fires from other countries within the region as well as Israel. Deforestation of the Amazon is a perennial problem, as ranchers and farmers seek to clear more land for agriculture, but fires in the vast area are up more than 80 percent in 2019 as compared to last year. Bolsonaro, who has previously said funds aren’t available to do more to protect the rain forest, has also accused industrialized nations of seeking to control and exploit the Amazon as a sort of modern “colonization.” Bolsonaro’s aides told Folha de S.Paulo that the United States

actively worked to mute efforts by France and others at the G7 summit in Biarritz, France to make the group’s response to the Amazon fires stronger. U.S. President Donald Trump did not attend a meeting at the summit where the issue was discussed. The G7 is comprised of the democracies in the world with the largest economies: the United States, Japan, Germany, France, Italy, Britain and Canada. Meanwhile, in neighboring Bolivia, President Evo Morales suspended his re-election campaign over fires there and said he welcomed foreign aid, a shift in policy, The New York Times reported.

Venezuelans Rush to Enter Ecuador Ahead of New Visa Rules

Thousands of Venezuelans lined up at border crossings with Ecuador on Aug. 25 in a rush to beat new visa requirements that went into effect at midnight, El Comercio reported. Executive Decree 826 requires Venezuelans to apply for a humanitarian visa to enter the country and for those who entered before July 26 to undergo an amnesty and regularization process. Ecuador’s government says it spent \$76 million last year to address the Venezuelan migrant crisis. The office of the United Nations High Commissioner for Refugees said it had seen a marked increase in the number of Venezuelans reaching Ecuador this month, with peaks of 3,000 individuals entering per day during the week of Aug. 19, the Financial Times reported. The agency estimates that less than 20 percent of Venezuelan migrants plan to return to their country. The Organization of American States has warned that the number of Venezuelans leaving their home country for abroad since 2015 could reach 8 million by 2020, according to the report. Although initially welcomed as refugees, for the most part, migrants are finding host countries to be less accommodating as housing, jobs and health care become increasingly difficult to provide. The United Nations has so far received just \$180 million in donations to address the crisis. [Editor’s note: See related Q&A in the July 11 issue of the daily Latin America Advisor.]

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of the increase in tax revenues. However, it is very unlikely that the Mexican economy can be totally moved to digital. In theory, this will help to control the economy and avoid money laundering issues in the short term. The digital economy without the proper controls may be risky as it can also be used for money laundering through Bitcoin.”

A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:**

“Mexico is a country with more than 60 percent of its population with no bank account, and another 10 percent who hardly use it. There are 46 million cars in Mexico. Many small traders (the so-called changarro owners) have to use their vehicles for trade but have no bank accounts. The ban for paying cash and tolls will have clear adverse effects on these traders. The Mexican financial system works very efficiently with SPEI and other forms of electronic payments—but only when it works. Moreover, for electronic systems in banks, by default, if an unwanted transaction happens, the onus is on the account holders. There is no insurance available to protect one’s account unless one is willing to pay 10 percent of the deposit to buy a separate insurance policy just to have the money protected for one year, unlike in other OECD countries. In April 2018, hackers siphoned off some \$15 million to \$20 million out of the Mexican financial system. Banxico has been very reluctant to give out details of how that happened. However, we know that it was done by ‘mule’ accounts—many transactions happened each with less than 5,000 pesos transferred—which attracted very little attention in the system. The hackers probably accessed commercial bank connections

to SPEI and, eventually, SPEI’s transaction servers themselves to execute the heist. The hackers could do that because the SPEI app is full of bugs at every stage of execution.”

A **Greg Ahlgren, partner at Diaz, Reus & Targ:** “The recent nationwide network outage in Mexico clearly demonstrates that the country is incapable of going ‘cash-free’ on highways, gas stations or anywhere else. Had it not been for Mexicans’ traditional reliance on cash, the outage could have been disastrous. At this point, Mexican payment systems lack the network resilience and

“Had it not been for Mexicans’ traditional reliance on cash, the outage could have been disastrous.”

— Greg Ahlgren

redundancy that would allow a totally cashless ecosystem in any area of the economy. Apart from the recent widespread outage, it should be noted that payment system failures occur frequently and unpredictably in Mexico—even in principal cities such as Monterrey and Mexico City. The electronic payment situation in lower-tier cities is even more problematic. New payment platforms may contribute needed redundancy to the commercial ecosystem in Mexico, but nationwide implementation of such platforms appears to be a distant objective at the present time.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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